

State of Illinois
Department of Transportation
Financial Audit

For the Year Ended June 30, 2007
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

State of Illinois
Department of Transportation
Financial Audit
For the Year Ended June 30, 2007

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State of Illinois
Department of Transportation
Agency Officials
June 30, 2007

Secretary of Transportation (current)	Mr. Milton R. Sees
Secretary of Transportation (1/17/03 to 1/26/07)	Mr. Timothy W. Martin
Assistant Secretary	Mr. David D. Phelps
Director of Finance and Administration	Ms. Ann Schneider
Legal Counsel	Ms. Ellen Schanzle-Haskins
Bureau Chief, Business Services	Mr. William J. Grunloh

Department of Transportation's offices are located at:

2300 South Dirksen Parkway
Springfield, IL 62764

310 South Michigan Ave.
Chicago, IL 60604

Financial Statement Report

State of Illinois
Department of Transportation
Financial Statement Report Summary
June 30, 2006

Summary

The audit of the accompanying financial statements of the State of Illinois, Department of Transportation was performed by BKD, LLP.

Based on their audit, the accountants expressed an unqualified opinion on the Department's basic financial statements.

Summary of Findings

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings and Responses on pages 49 through 52 of this report as Finding 07-01, Accounts Payable Cut-off, Finding 07-02, Deferred Revenue, and Finding 07-03, Inaccurate Commodities Inventory Records. The auditors also considered Findings 07-01 and 07-02 to be material weaknesses.

Exit Conference

The Department reviewed the findings and recommendations appearing in this report and waived a formal exit conference. The Department's responses were provided by Ron McKeachan, Chief of Audits, on January 29, 2008.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the State of Illinois, Department of Transportation (Department) as of and for the year ended June 30, 2007, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the State of Illinois, Department of Transportation, are intended to present the financial position, the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and its changes in financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the State of Illinois, Department of Transportation, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2008, on our consideration of the State of Illinois, Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis and budgetary comparison schedules for the General, Road, Motor Fuel Tax, and State Construction funds that accounting principles generally accepted in the United States of America determined are necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Transportation's basic financial statements. The combining general revenue fund and nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining general revenue fund and nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller and agency management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

April 17, 2008

Basic Financial Statements

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Statement of Net Assets

June 30, 2007 (Expressed in Thousands)

	<u>Governmental Activities</u>
ASSETS	
Unexpended appropriations	\$ 427,627
Cash equity with State Treasurer	69,633
Cash and cash equivalents	12,682
Receivables, net:	
Intergovernmental	173,140
Other	8,217
Due from other State funds	53,672
Due from State of Illinois component units	3,717
Inventories	39,592
Loans receivable, net	46,510
Capital assets not being depreciated	2,111,023
Capital assets being depreciated, net	12,847,461
Total assets	<u>15,793,274</u>
LIABILITIES	
Accounts payable and accrued liabilities	201,238
Intergovernmental payables	261,508
Due to other State fiduciary funds	1,500
Due to other State funds	20,177
Due to State of Illinois component units	5,620
Deferred revenues	2,817
Long-term obligations:	
Due within one year	7,786
Due subsequent to one year	67,363
Total liabilities	<u>568,009</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,932,263
Restricted for:	
Transportation programs	6,694
Debt service	20,416
Unrestricted net assets	265,892
Total net assets	<u>\$ 15,225,265</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

Statement of Activities

For the Year Ended June 30, 2007 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
Transportation	\$ 3,630,749	\$ 70,243	\$ 229,849	\$ 999,304	\$ (2,331,353)
Interest	731	-	-	-	(731)
Total governmental activities	\$ 3,631,480	\$ 70,243	\$ 229,849	\$ 999,304	(2,332,084)
General revenues and transfers					
Appropriations from State resources					7,204,726
Reappropriations to future year(s)					(3,587,527)
Lapsed appropriations					(111,149)
Receipts collected and transmitted to State Treasury					(1,146,938)
Net change in liabilities for reappropriated accounts					6,414
Other revenues					461
Interest and investment income					2,095
Capital transfers to other State agencies					(5,810)
Loss on disposal of capital assets					(1,676)
Amount of SAMS transfers-in					(655,612)
Amount of SAMS transfers-out					716,673
Transfers-in					388,601
Transfers-out					(49,728)
Total general revenues and transfers					2,760,530
Change in net assets					428,446
Net assets, July 1, 2006					14,796,819
Net assets, June 30, 2007					\$ 15,225,265

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Balance Sheet - Governmental Funds

June 30, 2007 (Expressed in Thousands)

	General	Road	Motor Fuel Tax	State Construction Account	Nonmajor Funds	Total Governmental Funds
ASSETS						
Unexpended appropriations	\$ 18,358	\$ 278,890	\$ 93,121	\$ 25,371	\$ 11,887	\$ 427,627
Cash equity with State Treasurer	1,320	5,734	-	-	62,405	69,459
Cash and cash equivalents	-	3,698	-	2,625	6,359	12,682
Intergovernmental receivables, net	923	144,931	-	-	27,286	173,140
Other receivables, net	-	8,090	-	70	53	8,213
Due from other Department funds	-	25,346	-	16,875	3,097	45,318
Due from other State funds	-	3,720	-	-	49,874	53,594
Due from State of Illinois component units	-	3,717	-	-	-	3,717
Inventories	-	39,592	-	-	-	39,592
Loans receivable, net	1,138	-	-	-	45,372	46,510
Total assets	\$ 21,739	\$ 513,718	\$ 93,121	\$ 44,941	\$ 206,333	\$ 879,852
LIABILITIES						
Accounts payable and accrued liabilities	\$ 162	\$ 148,576	\$ 243	\$ 25,858	\$ 26,263	\$ 201,102
Intergovernmental payables	19,787	103,107	47,977	2,034	88,603	261,508
Due to fiduciary funds	1	1,477	22	-	-	1,500
Due to other Department funds	56	111	44,453	-	760	45,380
Due to other State funds	1	19,753	423	-	-	20,177
Due to State of Illinois component units	1	3,816	-	104	1,699	5,620
Unavailable revenue	923	84,421	-	-	14,409	99,753
Deferred revenue	-	-	-	-	2,817	2,817
Matured portion of long-term obligations	-	450	-	-	-	450
Total liabilities	20,931	361,711	93,118	27,996	134,551	638,307
FUND BALANCES						
Reserved for:						
Encumbrances	-	5,294	3	-	2	5,299
Long-term portion of:						
Loans and notes receivable	978	-	-	-	42,858	43,836
Inventories	-	39,592	-	-	-	39,592
Designated for reappropriated accounts in special revenue funds	-	-	-	-	5,617	5,617
Unreserved, undesignated:						
General fund	(170)	-	-	-	-	(170)
Special revenue funds	-	107,121	-	16,945	19,845	143,911
Capital project funds	-	-	-	-	105	105
Debt service fund	-	-	-	-	3,355	3,355
Total fund balances	808	152,007	3	16,945	71,782	241,545
Total liabilities and fund balances	\$ 21,739	\$ 513,718	\$ 93,121	\$ 44,941	\$ 206,333	\$ 879,852

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2007
(Expressed in Thousands)

Total fund balances – governmental funds	\$	241,545
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,958,484
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		99,753
Internal service funds are used to charge costs of air transportation to individual funds. The assets and liabilities of the Air Transportation Fund are reported as governmental activities in the Statement of Net Assets.		182
Some liabilities reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:		
Intergovernmental financing	\$	(2,152)
Certificates of participation		(26,200)
Capital lease obligations		(21)
Auto liability claims		(6,815)
Compensated absences		(39,511)
		(74,699)
Net assets of governmental activities	\$	15,225,265

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Statement of Revenues, Expenditures,
and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	General	Road	Motor Fuel Tax	State Construction Account	Nonmajor funds	Total Governmental Funds
REVENUES						
Operating grants - Federal	\$ -	\$ 31,795	\$ -	\$ -	\$ 129,901	\$ 161,696
Capital grants - Federal	-	958,504	-	-	-	958,504
Other operating grants	224	37,831	-	-	10,214	48,269
Other capital grants	-	7,325	-	-	-	7,325
Licenses and fees	-	18,578	-	-	19	18,597
Other charges for services	10	54,524	-	-	350	54,884
Interest and other investment income	-	-	-	-	2,095	2,095
Other	-	2	-	-	459	461
Total revenues	<u>234</u>	<u>1,108,559</u>	<u>-</u>	<u>-</u>	<u>143,038</u>	<u>1,251,831</u>
EXPENDITURES						
Transportation	118,168	1,214,936	661,470	46,137	625,143	2,665,854
Debt service - principal	-	21	-	-	-	21
Debt service - interest	-	3	-	-	728	731
Capital outlays	-	927,131	-	426,351	60,331	1,413,813
Total expenditures	<u>118,168</u>	<u>2,142,091</u>	<u>661,470</u>	<u>472,488</u>	<u>686,202</u>	<u>4,080,419</u>
Deficiency of revenues over expenditures	<u>(117,934)</u>	<u>(1,033,532)</u>	<u>(661,470)</u>	<u>(472,488)</u>	<u>(543,164)</u>	<u>(2,828,588)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	120,729	4,818,364	673,433	1,072,853	519,347	7,204,726
Reappropriations to future year(s)	(3,041)	(2,633,299)	-	(564,232)	(386,955)	(3,587,527)
Lapsed appropriations	(1,153)	(96,996)	(11,962)	-	(1,038)	(111,149)
Receipts collected and transmitted to State Treasury	(610)	(1,142,869)	-	(165)	(3,294)	(1,146,938)
Net change in liabilities for reappropriated accounts	29	65,355	(8,837)	(38,489)	(11,644)	6,414
Capital lease and installment purchase acquisitions	-	31	-	-	-	31
Amount of SAMS Transfers-in	(979)	(385,212)	-	(269,421)	-	(655,612)
Amount of SAMS Transfers-out	-	35,000	646,673	35,000	-	716,673
Transfers-in	1,320	344,836	-	230,960	419,134	996,250
Transfers-out	-	(4,222)	(637,836)	-	(15,219)	(657,277)
Net other sources (uses) of financial resources	<u>116,295</u>	<u>1,000,988</u>	<u>661,471</u>	<u>466,506</u>	<u>520,331</u>	<u>2,765,591</u>
Net change in fund balances	<u>(1,639)</u>	<u>(32,544)</u>	<u>1</u>	<u>(5,982)</u>	<u>(22,833)</u>	<u>(62,997)</u>
Fund balances July 1, 2006	2,447	177,761	2	22,927	94,615	297,752
Increase for changes in inventories	-	6,790	-	-	-	6,790
FUND BALANCES JUNE 30, 2007	<u>\$ 808</u>	<u>\$ 152,007</u>	<u>\$ 3</u>	<u>\$ 16,945</u>	<u>\$ 71,782</u>	<u>\$ 241,545</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2007
(Expressed in Thousands)

Net change in fund balances	\$	(62,997)
Change in inventories		6,790
		(56,207)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		441,129
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		21
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the Statement of Net Assets the obligation is reported as a liability.		(31)
Some capital assets were transferred out to other State agencies and therefore, no proceeds were received for the capital asset's value		(5,810)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. This amount represents the increase in unavailable revenue over the prior year.		49,525
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses on the disposal of the net value of capital assets are also reported.		(1,676)
Internal service funds are used to charge costs of certain activities to individual funds. The net revenue of the internal service fund is reported as governmental activities in the Statement of Activities.		(196)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities:		
Increase in compensated absence		(338)
Decrease in intergovernmental financing		1,580
Decrease in auto liability claims		449
		428,446

Change in net assets of governmental activities	\$	428,446
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The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

Statement of Net Assets - Proprietary Fund
Air Transportation Revolving Fund
June 30, 2007 (Expressed in Thousands)

	Governmental Activities- Internal Service Fund
ASSETS	
Cash equity with State Treasurer	\$ 174
Other receivables, net	4
Due from other Department funds	62
Due from other State funds	78
Total current assets	<u>318</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>136</u>
NET ASSETS	
Unrestricted	182
Total net assets	<u>\$ 182</u>

The accompanying notes to the financial statements are an integral part of this statement.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Proprietary Fund
Air Transportation Revolving Fund
For the Year Ended June 30, 2007 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
<hr/>	
OPERATING REVENUES	
Charges for sales and services	\$ 596
OPERATING EXPENSES	
Cost of sales and services	690
General and administrative	2
Total operating expenses	<u>692</u>
Operating loss	<u>(96)</u>
Transfers-out	<u>(100)</u>
Change in net assets	(196)
Net Assets, July 1, 2006	<u>378</u>
NET ASSETS, June 30, 2007	<u><u>\$ 182</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

**Statement of Cash Flows - Proprietary Fund
Air Transportation Revolving Fund**

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 15
Cash received from transactions with other funds	540
Cash payments to suppliers for goods and services	(673)
Net cash used by operating activities	(118)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers-out to other funds	(100)
Net cash used by noncapital financing activities	(100)
Net decrease in cash and cash equivalents	(218)
Cash and cash equivalents, July 1, 2006	392
CASH AND CASH EQUIVALENTS, JUNE 30, 2007	\$ 174
Reconciliation of operating loss to net cash used by operating activities:	
OPERATING LOSS	\$ (96)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Increase in due from other funds	(42)
Decrease in due from component units	1
Increase in accounts payable and accrued liabilities	19
NET CASH USED BY OPERATING ACTIVITIES	\$ (118)

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2007

(1) Organization

The Department of Transportation (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review of the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the Road Fund, the Motor Fuel Tax Fund and the State Construction Fund are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of locally-held retainage accounts authorized by State law.

The Department is organized to provide safe, cost-effective transportation for Illinois in ways that enhance quality of life, promote economic prosperity, and demonstrate respect for our environment.

(2) Summary of Significant Accounting Policies

The financial statements of the department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2007

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Transportation, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2007, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the transportation function in the State of Illinois' Comprehensive Annual Financial Report. A brief description of the Department's government-wide and fund financial statements is as follows:

Government-wide Statements: The government-wide statement of net assets and statement of activities report the overall financial activity of the Department. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes, license and fees, charges for services, and intergovernmental revenues.

The statement of net assets presents the assets and liabilities of the Department's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components – the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the transportation function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Department's funds. Separate statements for each fund category – governmental and proprietary - are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2007

The Department administers the following major governmental funds (or portions thereof in the case of shared funds – see note 2(d)) of the State:

General – This is the State’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, public transportation and air transportation for the Governor and State Legislature on official business. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Road – This fund accounts for the activities of the State highway programs including highway maintenance and construction, traffic control and safety, and administering motor vehicle laws and regulations. Funding sources include federal aid, State motor fuel taxes and various license and fee charges.

Motor Fuel Tax – This fund accounts for the activities for various transportation related program expenditures and the administrative cost of supervising the use of funds apportioned to municipalities, counties and road districts. Funding sources include State fuel taxes and an allocation (transfer) of State sales tax collections from the General Fund. The Department’s portion of the Motor Fuel Tax Fund is composed of the following sub-accounts: Motor Fuel Tax - State, Motor Fuel Tax - Counties, Motor Fuel Tax - Municipalities, and Motor Fuel Tax - Townships and Road District.

State Construction Account – This fund accounts for the construction, reconstruction, and maintenance of the State maintained highway system. Funding sources include a portion of motor vehicle registration fees, weight taxes, and transfers from the Motor Fuel Tax Fund.

The Department also reports the following proprietary fund type:

Internal Service – This fund accounts for air travel provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

(c) Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, 1) principal and interest on formal debt issues, such as bonds and capital leases, are recorded only when payment is due and 2) compensated absences and claims and judgments are recorded when they are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include federal aid and motor fuel tax revenue. All other revenue sources including fines, penalties, licenses and other miscellaneous revenue are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Department's operations.

(d) Shared Fund Presentation

The financial statement presentation for General Revenue Fund, Road Fund, Motor Fuel Tax Fund, and State Construction Account Fund represents only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriation

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriation from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

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Reappropriation to Future Year(s)

This contra revenue account reduces current year's appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Net Change in Liabilities for Reappropriated Accounts

This account reflects the amount which should be added to or subtracted from the current year appropriation for shared funds to reflect the increase or decrease from prior year to current year for amounts included in obligations for reappropriated accounts which are liabilities at June 30 of the prior year and June 30 of the current year.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records, including prior year refunds.

Amount of SAMS Transfers-Out

This "other financing source" account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

Amount of SAMS Transfers-In

This "other financing use" account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

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(e) Eliminations

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental column of the Department. As a result, amounts reported in the governmental funds balance sheet and proprietary funds statement of net assets as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary funds statement of net assets as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances. Also, eliminations have been made in the statement of activities to remove the “doubling-up” effect of interdepartmental internal service fund activity.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at time of purchase. Cash and cash equivalents include cash on hand, petty cash funds, and cash held in local bank accounts as retainage due to contractors.

(g) Inventories

Inventories, consisting primarily of road salt and sand, traffic signs, and traffic sign materials, are valued at cost on the average cost method. Significant inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories reported in the governmental funds do not reflect current appropriable resources, and therefore, the Department reserves an equivalent portion of fund balance.

(h) Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used — sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheets or the government-wide and proprietary statements of net assets.

Reimbursements – repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

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Transfers — flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after nonoperating revenues and expenses.

The Department also has activity with the State of Illinois component units primarily related to research grants and purchases of services.

(i) Capital Assets

Capital assets, which includes property, plant, and equipment and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Infrastructure	\$250,000	20-40
Land	100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3-50
Buildings	100,000	10-60
Buildings Improvements	25,000	10-45
Equipment	5,000	3-25

(j) Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary statements of net assets consists of unpaid, accumulated vacation and sick leave balances for Department Employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary-related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

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(k) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purpose. Designations of fund balances represent tentative State plans that are subject to change.

(l) Net Assets

In the government-wide and proprietary fund statements of net assets, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(m) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer, or in transit, totaled \$69.633 million at June 30, 2007. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit for locally held funds had a carrying amount and bank balance of \$12,678 million at June 30, 2007. Of the total bank balance, \$.761 million was exposed to custodial credit risk as uninsured with collateral held by the pledging financial institution (but not its trust department or agent) in the State's name and \$6.318 million was exposed to custodial credit risk as uninsured and uncollateralized.

Cash on hand totaled \$4 thousand at June 30, 2007.

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(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amount expressed in thousands) at June 30, 2007 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Road	\$ 25,346	\$ 3,720	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June and from other State nonmajor funds for expenditures incurred.
State Construction Account	16,875	---	Due from the Motor Fuel Tax Fund for motor fuel tax allocation from June and from other State non-major funds for unexpended advances.
Nonmajor governmental funds	3,097	49,874	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June, from other Department funds for reimbursement of expenditures incurred, and from other Department of Revenue for June sales tax allocations.
Internal service funds	62	78	Due from other Department funds and other State funds for air transportation services rendered.
	<u>\$ 45,380</u>	<u>\$ 53,672</u>	

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The following balances (amount expressed in thousands) at June 30, 2007 represent amounts due to other Department and State of Illinois funds.

<u>Fund</u>	<u>Due To</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary Funds</u>	
General	\$ 56	\$ 1	\$ 1	Due to Department internal service funds for air transportation services received.
Road	111	19,753	1,477	Due to Department internal service funds and to other State internal service funds for air transportation services received, to other State nonmajor governmental funds for reimbursement of expenditures incurred, and to State pension (and other employee benefit) trust funds for postemployment benefits.
Motor Fuel Tax	44,453	423	22	Due to Department funds, other State funds for motor fuel tax allocation from June, and to State pension (and other employee benefit) trust funds for postemployment benefits.
Nonmajor governmental funds	760	---	---	Due to other Department funds for transfers per statutory guidelines and to other Department nonmajor governmental funds for reimbursement of expenditures incurred.
	<u>\$ 45,380</u>	<u>\$ 20,177</u>	<u>\$ 1,500</u>	

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(b) Transfers to/from Other Funds

Interfund transfers in (amount expressed in thousands) for the year ended June 30, 2007, were as follows:

Fund	Transfers in from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ ---	\$ 1,320	Transfer from nonmajor governmental funds per statutory guidelines.
Road	344,836	---	Transfer from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute.
State Construction Account	230,960	---	Transfer from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute.
Nonmajor governmental funds	31,853	387,281	Transfers from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute, other Department nonmajor governmental funds for debt service, and from Department of Revenue for sales tax allocation and for other purposes.
	<u>\$ 607,649</u>	<u>\$ 388,601</u>	

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Interfund transfers out (amount expressed in thousands) for the year ended June 30, 2007, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Road	\$ 4,222	\$ ---	Transfers to Department nonmajor governmental funds for debt service payments and to other State nonmajor governmental funds for debt service payments and for budget shortfalls.
Motor Fuel Tax	602,796	35,040	Transfers to Departmental funds and other State funds for motor fuel tax allocations pursuant to State statute.
Nonmajor governmental funds	631	14,588	Transfers to General Fund per statutory guidelines and to other State funds for administration of Railroad Safety program, budget shortfalls, and for other purposes.
Internal service fund	---	100	Transfers to General Fund per statutory guidelines for budget shortfalls and for other purposes.
	<u>\$ 607,649</u>	<u>\$ 49,728</u>	

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(c) Balances Due to/from State of Illinois Component Units

The following balances (amount expressed in thousands) at June 30, 2007 represent amounts due from State of Illinois Component Units for expenditures incurred for cost sharing projects.

<u>Fund</u>	<u>Due from Component Units</u>			<u>Description/Purpose</u>
	<u>Illinois Toll Highway Authority</u>	<u>University of Illinois</u>	<u>Total</u>	
Road	\$ 3,157	\$ 560	\$ 3,717	Reimbursements for expenditures incurred for cost sharing projects.

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The following balances (amount expressed in thousands) at June 30, 2007 represent reimbursement amounts for expenditures incurred for grant programs due to State of Illinois Component Units.

<u>Component Unit</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>State Construction Account</u>	<u>Nonmajor Governmental Fund</u>
Illinois Toll Highway Authority	\$ ---	\$ 26	\$ ---	\$ ---
Eastern Illinois University	---	360	---	---
Western Illinois University	---	---	---	383
Illinois State University	---	236	---	630
Northern Illinois University	---	75	---	289
Southern Illinois University	---	237	---	158
University of Illinois	1	2,882	104	239
	<u>\$ 1</u>	<u>\$ 3,816</u>	<u>\$ 104</u>	<u>\$ 1,699</u>

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(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2007 was as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2007</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 2,061,861	\$ 48,306	\$ (1,348)	\$ ---	\$ 2,108,819
Construction in progress	<u>1,180</u>	<u>2,687</u>	<u>---</u>	<u>(1,663)</u>	<u>2,204</u>
Total capital assets not being depreciated	<u>2,063,041</u>	<u>50,993</u>	<u>(1,348)</u>	<u>(1,663)</u>	<u>2,111,023</u>
Capital assets being depreciated:					
Infrastructure	21,808,196	1,339,348	(675,476)	(4,605)	22,467,463
Site improvements	2,497	---	---	---	2,497
Buildings and building improvements	111,875	1,663	---	---	113,538
Equipment	331,135	21,778	(9,200)	458	344,171
Capital leases – equipment	<u>40</u>	<u>31</u>	<u>(34)</u>	<u>---</u>	<u>37</u>
Total capital assets being depreciated	<u>22,253,743</u>	<u>1,362,820</u>	<u>(684,710)</u>	<u>(4,147)</u>	<u>22,927,706</u>
Less accumulated depreciation:					
Infrastructure	9,451,488	955,201	(675,476)	---	9,731,213
Site improvements	2,129	---	---	---	2,129
Buildings and building improvements	66,771	2,409	---	---	69,180
Equipment	271,525	15,055	(8,872)	---	277,708
Capital leases – equipment	<u>30</u>	<u>19</u>	<u>(34)</u>	<u>---</u>	<u>15</u>
Total accumulated depreciation	<u>9,791,943</u>	<u>972,684</u>	<u>(684,382)</u>	<u>---</u>	<u>10,080,245</u>
Total capital assets being depreciated, net	<u>12,461,800</u>	<u>390,136</u>	<u>(328)</u>	<u>(4,147)</u>	<u>12,847,461</u>
Governmental activity capital assets, net	<u>\$ 14,524,841</u>	<u>\$ 441,129</u>	<u>\$ (1,676)</u>	<u>\$ (5,810)</u>	<u>\$ 14,958,484</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2007 was charged to the following functions as follows:

Transportation \$ 972,684

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(6) Long -Term Obligations

(a) Changes in Long -Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2007 were as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Notes Payable					
Intergovernmental financing	\$ 3,732	---	1,580	2,152	886
Other long-term obligations:					
Certificates of participation	26,200	---	---	26,200	1,450
Capital lease obligations	11	31	21	21	10
Auto liability claims	7,300	2,200	2,235	7,265	2,650
Compensated absences	39,173	23,973	23,635	39,511	2,790
	<u>39,173</u>	<u>23,973</u>	<u>23,635</u>	<u>39,511</u>	<u>2,790</u>
Total	<u>\$ 76,416</u>	<u>26,204</u>	<u>27,471</u>	<u>75,149</u>	<u>7,786</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the Road Fund.

The Department has recognized a liability of \$450 thousand in the Road Fund as of June 30, 2007, representing auto liability claims that were due as of year end. The remaining auto liability claims of \$6.815 million, and all other long-term obligations are considered to be general long-term liabilities and are recognized only in the government-wide financial statements.

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(b) Intergovernmental Financing - State of Illinois/State of Missouri Joint Agreement

The Department entered into an agreement with the State of Missouri for the construction of the Cape Girardeau Bridge. The agreement required that the Department reimburse the State of Missouri for 40% of the costs incurred for bridge construction. In accordance with a pre-established payment plan, the Department repays one-quarter of its annual obligation each year for four years following the year costs were incurred. Each year, the State of Missouri incurs costs and each year, the Department makes payments on costs incurred in prior years (unless such costs have been totally reimbursed) subject to the same one-quarter reimbursement arrangement. The State of Missouri assesses 5.3% interest on the unpaid balance.

As of June 30, 2007, the balance of the Illinois/Missouri Joint Agreement was \$2.152 million and is included in the government-wide financial statements. In subsequent years, this liability will be liquidated from future resources of the State Construction Fund, a major governmental fund. Future Illinois/Missouri Joint Agreement debt service requirements at June 30, 2007, are as follows:

Illinois/Missouri Joint Agreement			
(Rounded to Nearest Thousand)			
Year Ending June 30	Principal	Interest	Total
2008	\$ 886	\$ 114	\$ 1,000
2009	1,189	67	1,256
2010	77	14	91
	\$ 2,152	\$ 195	\$ 2,347

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(c) Capital Lease Obligations

The Department leases land, office facilities, office and computer equipment, and other assets with a historical cost and accumulated depreciation of \$37 thousand and \$15 thousand, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Interest varies from 4.5% - 4.9%. Future minimum lease payments (amounts expressed in thousands) at June 30, 2007 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 10	\$ 1	\$ 11
2009	10	1	11
2010	1	---	1
	<u>\$ 21</u>	<u>\$ 2</u>	<u>\$ 23</u>

(d) Certificates of Participation

The Department financed the purchase of certain Department-owned real and personal property (District 1 headquarters) through a third party (non-State issued) certificate. This non-state issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Interest varies from 3.9% - 5.5%. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2007, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 1,450	\$ 1,462	\$ 2,912
2009	1,520	1,383	2,903
2010	1,600	1,305	2,905
2011	1,680	1,222	2,902
2012	1,770	1,134	2,904
2013-2017	10,395	4,124	14,519
2018-2020	7,785	928	8,713
	<u>\$ 26,200</u>	<u>\$ 11,558</u>	<u>\$ 37,758</u>

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(7) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2007, the employer contribution rate was 11.525%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(8) Post-employment Benefits

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older. The total cost of health, dental, and life insurance benefits of all members, including post-employment health, dental, and life insurance benefits, is recognized as an expenditure for the State in the Illinois Comprehensive Annual Financial Report. The total costs incurred for health, dental, and life insurance benefits are not separated by Department for annuitants and their dependents nor active employees and their dependents.

(9) Fund Deficits

The Federal Local Airport Fund and Federal Mass Transit Fund had deficit fund balances (amounts expressed in thousands) of \$14,025 and \$384 respectively, at June 30, 2007. These deficits will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

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(10) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; workers compensation and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks.

Auto liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred by not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors.

The Department's risk financing for auto liabilities, \$7.265 million, has been determined using an estimate of claims outstanding. Claims that will be liquidated with expendable available financial resources have been recorded as a liability in the Road Fund, a major governmental fund, in the amount of \$450 thousand. The remaining portion of the liability, \$6.815 million, as of June 30, 2007, is included in the Department-wide financial statements and is expected to be paid from future resources of the Road Fund.

The following is a reconciliation of the Department's claims liabilities for the years June 30, 2006 and June 30, 2007.

Year Ended June 30	Beginning Balance	Claims Incurred	Decreases	Ending Balance
2006	\$3,486	\$6,121	\$2,307	\$7,300
2007	\$7,300	\$2,200	\$2,235	\$7,265

(11) Commitments and Contingencies

(a) Commitments

The Department has outstanding construction contracts for highway program improvements. The Department's commitments with contractors was \$1.958 billion at June 30, 2007.

(b) Operating Leases

The Department leases various real property and equipment under the terms of a noncancelable operating lease agreements that requires the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$8.910 million for the year ended June 30, 2007.

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The following is a schedule of future minimum lease payments under the operating lease (amounts expressed in thousands):

<u>Year Ending June 30</u>	<u>Amount</u>
2008	\$ 2,160
2009	325
2010	192
2011	134
2012	78
	<u>\$ 2,889</u>

(c) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2007, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(d) Litigation

The Department is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Significant General Fund Account Descriptions

June 30, 2007

General Fund

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund.

Significant General Fund Account Descriptions

General Revenue Account – to account for resources obtained and used which are not required to be accounted for in another fund or account.

I-Fly Account – to provide funding for air carrier recruitment and retention programs and planning grants for airports outside of Cook County.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Schedule of Accounts -
General Fund

June 30, 2007 (Expressed in Thousands)

	General Revenue 001	I-Fly 306	Total
ASSETS			
Unexpended appropriations	\$ 18,358	\$ -	\$ 18,358
Cash equity with State Treasurer	-	1,320	1,320
Intergovernmental receivables, net	923	-	923
Loans receivable, net	1,138	-	1,138
Total Assets	\$ 20,419	\$ 1,320	\$ 21,739
LIABILITIES			
Accounts payable and accrued liabilities	\$ 162	\$ -	\$ 162
Intergovernmental payables	18,137	1,650	19,787
Due to other State funds	2	-	2
Due to other Department funds	56	-	56
Due to State of Illinois component units	1	-	1
Unavailable revenue	923	-	923
Total Liabilities	19,281	1,650	20,931
FUND BALANCES (DEFICITS)			
Reserved for long-term portion of loans and notes receivable	978	-	978
Unreserved, undesignated	160	(330)	(170)
Total fund balances (deficits)	1,138	(330)	808
Total liabilities and fund balances (deficits)	\$ 20,419	\$ 1,320	\$ 21,739

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
General Fund
For the Year Ended June 30, 2007 (Expressed in Thousands)

	General Revenue 001	I-Fly 306	Total
REVENUES			
Other operating grants	\$ 224	\$ -	\$ 224
Other charges for services	10	-	10
Total revenues	<u>234</u>	<u>-</u>	<u>234</u>
EXPENDITURES			
Transportation	116,518	1,650	118,168
Total expenditures	<u>116,518</u>	<u>1,650</u>	<u>118,168</u>
Deficiency of revenues over expenditures	<u>(116,284)</u>	<u>(1,650)</u>	<u>(117,934)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriation from State resources	120,729	-	120,729
Reappropriations to future year(s)	(3,041)	-	(3,041)
Lapsed appropriations	(1,153)	-	(1,153)
Receipts collected and transmitted to State Treasury	(610)	-	(610)
Net changes in liabilities for reappropriated accounts	29	-	29
Amount of SAMS transfers-in	(979)	-	(979)
Transfers-in	-	1,320	1,320
Net other sources of financial resources	<u>114,975</u>	<u>1,320</u>	<u>116,295</u>
Net change in fund balances	<u>(1,309)</u>	<u>(330)</u>	<u>(1,639)</u>
Fund balances, July 1, 2006	2,447	-	2,447
FUND BALANCES (DEFICITS), JUNE 30, 2007	<u>\$ 1,138</u>	<u>\$ (330)</u>	<u>\$ 808</u>

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Significant Non-Major Governmental Fund Descriptions

June 30, 2007

Special Revenue Funds

The Special Revenue Funds are maintained to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Significant Non-Major Governmental Special Revenue Funds

Federal/Local Airport Fund – to receive and management federal funds for airport construction.

State Rail Freight Loan Repayment Fund – to receive and record repayments of loans of State funds, made by the Illinois Department of Transportation to railroads, units of local government, rail users, owners, and lessees of railroad right of way to rehabilitate, improve or construct rail facilities.

Public Transportation Fund – to receive monthly transfers from the General Revenue Account in the General Fund representing statutory shares under various sales tax acts and distribute to the Regional Transportation Authority pursuant to statutory formula.

Capital Project Funds

The Capital Project Funds are maintained to account for the acquisition and/or construction of major capital facilities.

Significant Non-Major Capital Project Funds

Transportation Bond Series A Fund – to account for the proceeds from the bond issues to finance State highway acquisition, construction, reconstruction, extension and improvements.

Transportation Bond Series B Fund – to account for the proceeds from the bond issues to finance mass transportation and aviation infrastructure including, but not limited to, the acquisition of mass transportation equipment, including rail and bus, and other equipment for counties under the Regional Transportation Authority.

Debt Service Funds

The Debt Service Funds are maintained to account for resources obtained and accumulated to pay interest and principal on general long-term obligations.

Significant Non-Major Debt Service Funds

There are no significant funds to describe.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007 (Expressed in Thousands)

	<u>Special Revenue</u>						
	<u>Grade</u>				<u>Intercity</u>	<u>State Rail</u>	
	<u>Crossing</u>	<u>Aeronautics</u>	<u>Federal</u>	<u>IDOT Special</u>	<u>Passenger</u>	<u>Freight Loan</u>	<u>Tax</u>
	<u>Protection</u>		<u>Local Airport</u>	<u>Projects Fund</u>	<u>Rail</u>	<u>Repayment</u>	<u>Recovery</u>
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	9,616	1	1,803	-	569	9,080	616
Cash and cash equivalents	-	-	-	-	-	-	-
Intergovernmental receivables, net	-	-	25,362	-	-	-	-
Other receivables, net	-	-	-	-	2	37	-
Due from other Department funds	2,250	-	732	-	-	-	-
Due from other State funds	-	-	-	14	-	-	-
Loans receivable, net	-	-	-	-	-	24,090	-
Total assets	<u>\$ 11,866</u>	<u>\$ 1</u>	<u>\$ 27,897</u>	<u>\$ 14</u>	<u>\$ 571</u>	<u>\$ 33,207</u>	<u>\$ 616</u>
LIABILITIES							
Accounts payable and accrued liabilities	\$ 4,567	\$ -	\$ 11,338	\$ -	\$ 490	\$ 1,564	\$ -
Intergovernmental payables	2,347	-	13,714	14	-	-	-
Due to other Department funds	-	-	28	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-	-
Unavailable revenue	-	-	14,025	-	-	-	-
Deferred revenue	-	-	2,817	-	-	-	-
Total liabilities	<u>6,914</u>	<u>-</u>	<u>41,922</u>	<u>14</u>	<u>490</u>	<u>1,564</u>	<u>-</u>
FUND BALANCES (DEFICITS)							
Reserved for encumbrances	-	-	-	-	-	-	1
Reserved for loans and notes receivable	-	-	-	-	-	23,156	-
Designated for other	4,952	-	-	-	-	665	-
Unreserved	-	1	(14,025)	-	81	7,822	615
Total fund balances (deficits)	<u>4,952</u>	<u>1</u>	<u>(14,025)</u>	<u>-</u>	<u>81</u>	<u>31,643</u>	<u>616</u>
Total liabilities and fund balances	<u>\$ 11,866</u>	<u>\$ 1</u>	<u>\$ 27,897</u>	<u>\$ 14</u>	<u>\$ 571</u>	<u>\$ 33,207</u>	<u>\$ 616</u>

Continued

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007 (Expressed in Thousands)

	Special Revenue					
	Transportation		Public Transportation	Down-State Public Transportation	Airport Land Loan Revolving	Metro-East Public Transportation
	Federal Civil Preparedness	Safety Highway Hire-Back				
ASSETS						
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	-	121	14,971	20,994	84	1,001
Cash and cash equivalents	-	-	-	-	-	-
Intergovernmental receivables, net	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-
Due from other State funds	5	-	47,445	-	-	2,410
Loans receivable, net	-	-	-	-	-	-
Total assets	\$ 5	\$ 121	\$ 62,416	\$ 20,994	\$ 84	\$ 3,411
LIABILITIES						
Accounts payable and accrued liabilities	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	-	-	62,416	1,979	-	843
Due to other Department funds	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-
Unavailable revenue	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	5	-	62,416	1,979	-	843
FUND BALANCES (DEFICITS)						
Reserved for encumbrances	-	-	-	1	-	-
Reserved for loans and notes receivable	-	-	-	-	-	-
Designated for other	-	-	-	-	-	-
Unreserved	-	121	-	19,014	84	2,568
Total fund balances (deficits)	-	121	-	19,015	84	2,568
Total liabilities and fund balance	\$ 5	\$ 121	\$ 62,416	\$ 20,994	\$ 84	\$ 3,411

Continued

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2007 (Expressed in Thousands)

	Special Revenue			Capital Projects		
	Federal Mass Transit	Cycle Rider Safety Training	Rail Freight Loan Repayment	Capital Development	Transportation Bond Series A	Transportation Bond Series B
ASSETS						
Unexpended appropriations	\$ -	\$ 1,317	\$ -	\$ -	\$ 3,169	\$ 7,401
Cash equity with State Treasurer	-	-	3,549	-	-	-
Cash and cash equivalents	-	-	-	-	4,181	-
Intergovernmental receivables, net	1,924	-	-	-	-	-
Other receivables, net	-	-	14	-	-	-
Due from other Department funds	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-
Loans receivable, net	-	-	3,054	-	-	-
Total assets	\$ 1,924	\$ 1,317	\$ 6,617	\$ -	\$ 7,350	\$ 7,401
LIABILITIES						
Accounts payable and accrued liabilities	\$ 99	\$ 1	\$ 28	\$ -	\$ 7,350	\$ 821
Intergovernmental payables	1,442	-	-	-	-	5,848
Due to other Department funds	-	-	-	-	-	732
Due to State of Illinois component units	383	1,316	-	-	-	-
Unavailable revenue	384	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Total liabilities	2,308	1,317	28	-	7,350	7,401
FUND BALANCES (DEFICITS)						
Reserved for encumbrances	-	-	-	-	-	-
Reserved for loans and notes receivable	-	-	2,641	-	-	-
Designated for other	-	-	-	-	-	-
Unreserved	(384)	-	3,948	-	-	-
Total fund balances (deficits)	(384)	-	6,589	-	-	-
Total liabilities and fund balance	\$ 1,924	\$ 1,317	\$ 6,617	\$ -	\$ 7,350	\$ 7,401

Continued

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2007 (Expressed in Thousands)

	Capital Projects		Debt Service		Total
	IDOT Capital Projects	General Obligation Bond Retirement and Interest	IDOT COP Debt Service		
ASSETS					
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	11,887
Cash equity with State Treasurer	-	-	-	-	62,405
Cash and cash equivalents	-	-	2,178	-	6,359
Intergovernmental receivables, net	-	-	-	-	27,286
Other receivables, net	-	-	-	-	53
Due from other Department funds	105	10	-	-	3,097
Due from other State funds	-	-	-	-	49,874
Loans receivable, net	-	18,228	-	-	45,372
Total assets	\$ 105	\$ 18,238	\$ 2,178	\$ -	206,333
LIABILITIES					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	26,263
Intergovernmental payables	-	-	-	-	88,603
Due to other Department funds	-	-	-	-	760
Due to State of Illinois component units	-	-	-	-	1,699
Unavailable revenue	-	-	-	-	14,409
Deferred revenue	-	-	-	-	2,817
Total liabilities	-	-	-	-	134,551
FUND BALANCES (DEFICITS)					
Reserved for encumbrances	-	-	-	-	2
Reserved for loans and notes receivable	-	17,061	-	-	42,858
Designated for other	-	-	-	-	5,617
Unreserved	105	1,177	2,178	-	23,305
Total fund balances (deficits)	105	18,238	2,178	-	71,782
Total liabilities and fund balance	\$ 105	\$ 18,238	\$ 2,178	\$ -	206,333

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances (Deficits) -
Nonmajor Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Special Revenue						
	Grade Crossing Protection	Aeronautics	Federal Local Airport	IDOT Special Projects Fund	Intercity Passenger Rail	State Rail Freight Loan Repayment	Tax Recovery
REVENUES							
Operating grants - Federal	\$ -	\$ -	\$ 120,922	\$ -	\$ -	\$ -	\$ -
Other operating grants	-	-	10,214	-	-	-	-
Licenses and fees	-	19	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	350
Interest and other investment income	-	-	-	-	25	1,134	-
Other	8	-	-	-	-	-	-
Total revenues	8	19	131,136	-	25	1,134	350
EXPENDITURES							
Transportation	29,137	36	141,664	-	490	3,251	34
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	29,137	36	141,664	-	490	3,251	34
Excess (deficiency) of revenues over (under) expenditures	(29,129)	(17)	(10,528)	-	(465)	(2,117)	316
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	-	-
Reappropriations to future year(s)	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-	-
Transfers-in	27,000	-	-	-	546	-	-
Transfers-out	(8,410)	-	(231)	-	-	(400)	(150)
Net other sources (uses) of financial resources	18,590	-	(231)	-	546	(400)	(150)
Net change in fund balances	(10,539)	(17)	(10,759)	-	81	(2,517)	166
Fund balances (deficits), July 1, 2006	15,491	18	(3,266)	-	-	34,160	450
FUND BALANCES (DEFICITS), JUNE 30, 2007	\$ 4,952	\$ 1	\$ (14,025)	\$ -	\$ 81	\$ 31,643	\$ 616

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance (Deficits) -
Nonmajor Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Special Revenue					
	Federal Civil Preparedness	Transportation Safety Highway Hire-Back	Public Transportation	Down-State Public Transportation	Airport Land Loan Revolving	Metro-East Public Transportation
REVENUES						
Operating grants - Federal	\$ 1,000	\$ -	\$ -	\$ -	\$ -	\$ -
Other operating grants	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	23	-
Other	-	376	-	-	-	-
Total revenues	<u>1,000</u>	<u>376</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>-</u>
EXPENDITURES						
Transportation	664	300	302,162	69,693	-	9,490
Debt service – interest	-	-	-	-	-	-
Capital outlays	336	-	-	-	-	-
Total expenditures	<u>1,000</u>	<u>300</u>	<u>302,162</u>	<u>69,693</u>	<u>-</u>	<u>9,490</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>76</u>	<u>(302,162)</u>	<u>(69,693)</u>	<u>23</u>	<u>(9,490)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	3,616	-	-	-	-	-
Reappropriations to future year(s)	(1,071)	-	-	-	-	-
Lapsed appropriations	(1,000)	-	-	-	-	-
Receipts collected and transmitted to State Treasury	(1,288)	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-
Transfers-in	-	-	302,162	75,074	-	9,499
Transfers-out	-	(28)	-	(6,000)	-	-
Net other sources (uses) of financial resources	<u>257</u>	<u>(28)</u>	<u>302,162</u>	<u>69,074</u>	<u>-</u>	<u>9,499</u>
Net change in fund balances	<u>257</u>	<u>48</u>	<u>-</u>	<u>(619)</u>	<u>23</u>	<u>9</u>
Fund balances (deficits), July 1, 2006	(257)	73	-	19,634	61	2,559
FUND BALANCES (DEFICITS), JUNE 30, 2007	<u>\$ -</u>	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ 19,015</u>	<u>\$ 84</u>	<u>\$ 2,568</u>

(Continued)

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance (Deficits) -
Nonmajor Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Special Revenue			Capital Projects		
	Federal Mass Transit	Cycle Rider Safety Training	Rail Freight Loan Repayment	Capital Development	Transportation Bond Series A	Transportation Bond Series B
REVENUES						
Operating grants - Federal	\$ 7,979	\$ -	\$ -	\$ -	\$ -	\$ -
Other operating grants	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-
Interest and other investment income	-	-	332	-	-	-
Other	-	-	-	-	-	-
Total revenues	<u>7,979</u>	<u>-</u>	<u>332</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES						
Transportation	8,086	3,413	651	-	997	53,759
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	-	58,391	1,604
Total expenditures	<u>8,086</u>	<u>3,413</u>	<u>651</u>	<u>-</u>	<u>59,388</u>	<u>55,363</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(107)</u>	<u>(3,413)</u>	<u>(319)</u>	<u>-</u>	<u>(59,388)</u>	<u>(55,363)</u>
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	6,173	-	76	190,291	319,191
Reappropriations to future year(s)	-	(3,289)	-	(64)	(126,496)	(256,035)
Lapsed appropriations	-	(26)	-	(12)	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	(1)	-
Net change in liabilities for reappropriated accounts	-	555	-	-	(4,406)	(7,793)
Transfers-in	-	-	400	-	-	-
Transfers-out	-	-	-	-	-	-
Net other sources (uses) of financial resources	<u>-</u>	<u>3,413</u>	<u>400</u>	<u>-</u>	<u>59,388</u>	<u>55,363</u>
Net change in fund balances	(107)	-	81	-	-	-
Fund balances (deficits), July 1, 2006	(277)	-	6,508	-	-	-
FUND BALANCES (DEFICITS), JUNE 30, 2007	<u><u>\$ (384)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,589</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Continued

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
Combining Statement of Revenues,
Expenditures and Changes in Fund Balance (Deficits) -
Nonmajor Governmental Funds

For the Year Ended June 30, 2007 (Expressed in Thousands)

	Capital Projects	Debt Service		Total
	IDOT Capital Projects	General Obligation Bond Retirement and Interest	IDOT COP Debt Service	
REVENUES				
Operating grants - Federal	\$ -	\$ -	\$ -	\$ 129,901
Other operating grants	-	-	-	10,214
Licenses and fees	-	-	-	19
Other charges for services	-	-	-	350
Interest and other investment income	-	581	-	2,095
Other	-	75	-	459
Total revenues	-	656	-	143,038
EXPENDITURES				
Transportation	1,316	-	-	625,143
Debt service - interest	-	-	728	728
Capital outlays	-	-	-	60,331
Total expenditures	1,316	-	728	686,202
Excess (deficiency) of revenues over (under) expenditures	(1,316)	656	(728)	(543,164)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	-	-	519,347
Reappropriations to future year(s)	-	-	-	(386,955)
Lapsed appropriations	-	-	-	(1,038)
Receipts collected and transmitted to State Treasury	-	(2,005)	-	(3,294)
Net change in liabilities for reappropriated accounts	-	-	-	(11,644)
Transfers-in	1,316	231	2,906	419,134
Transfers-out	-	-	-	(15,219)
Net other sources (uses) of financial resources	1,316	(1,774)	2,906	520,331
Net change in fund balances	-	(1,118)	2,178	(22,833)
Fund balances (deficits), July 1, 2006	105	19,356	-	94,615
FUND BALANCES (DEFICITS), JUNE 30, 2007	\$ 105	\$ 18,238	\$ 2,178	\$ 71,782



**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (Department) as of and for the year ended June 30, 2007, and have issued our report thereon dated April 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described as findings 07-01, 07-02, and 07-03 in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 07-01 and 07-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying Schedule of Findings and Responses as item 07-03.

The Department's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and Department management and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

April 17, 2008

State of Illinois
Department of Transportation
Schedule of Findings and Responses
June 30, 2006

07-01. Finding – Accounts Payable Cut-Off

The Department is not adhering to proper cutoff policies and standards required by the State and generally accepted accounting principles.

During our review of expenditure reports for August 2007 through February 2008, we noted approximately 1,500 exceptions in which invoices relating to goods received or services performed prior to the year-end date were not accrued as of June 30, 2007. These inaccurately recorded expenditures resulted in liabilities to be understated by \$84,211,000 in the following funds: the Road Fund, the Grade Crossing Protection Fund, the Federal Local Airport Fund, Transportation Bond Series B Fund, and the State Construction Account Fund. An adjusting journal entry was recorded to correct these differences. Proper cutoff procedures are critical for accurate reporting on the modified accrual basis of accounting. In addition, differences pertaining to the General Fund for \$83,382, the Road Fund for \$827,294, the State Construction Fund for \$996,158 and six non-major funds for \$987,448 were identified. The Department passed on recording these adjustments due to these differences consisting of small voucher amounts which when compared to the financial statements as a whole were considered immaterial by the Department.

Pursuant to the Statewide Accounting Management System (SAMS) 03.20.20 (Page 1 of 1), the State adopted the current financial resources measurement focus and modified accrual basis of accounting. Liabilities should be recognized in the accounting period in which the liability is incurred.

Department personnel stated that the Department does not always receive timely invoices from vendors.

Without a formal accounts payable cut off policy in practice, Department records could be inconsistent and incomplete, resulting in inaccurate financial statements. (Finding Code 07-01)

Recommendation

We recommend that the Department prepare written instructions to be included as a part of the accounting policies and procedures manual which indicates both the concepts of proper cut-offs and the individuals responsible for accruing payables at the accounting period end. We further suggest development of a report to track unpaid vouchers at year end.

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07-01. Finding – Accounts Payable Cut-Off (Continued)

Department Response

The Department agrees with this finding.

The current protocol has been in place for several decades. GAAP reporting protocols are currently being studied and enhanced as necessary. The accruing of payables will be one of the key areas to be addressed. Once the new protocols are in place, the Department will work with all affected personnel and vendors to ensure that we are able to accurately accrue liabilities

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07-02. Finding – Deferred Revenue

The Department recognized revenues for federal reimbursements in the incorrect accounting period.

Our review of accounts receivable and receipts during the lapse period disclosed twenty-one instances of early recognition of revenue for reimbursements which had not been received as of the end of lapse period. In eight of these instances, reimbursements for advanced construction projects were being recognized as revenue even though they had not been billed as of year end (or cash received by the end of the lapse period). Other similar instances noted pertained to miscellaneous projects being recognized as revenue even though they had not been billed as of year end (or cash received by the end of the lapse period). These multiple instances resulted in the Department inaccurately recognizing \$8,790,840 of revenue which caused liabilities to be understated by \$13,213,000, when extrapolated over the entire population of reimbursements (Road Fund). An adjusting journal entry was recorded to correct these differences.

Under the Statewide Accounting Management System (SAMS) 03.20.20 (Page 1 of 1), the State considers all revenues reported in the governmental funds to be available if collected within the lapse period. Application of the “measurable and available” criteria requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of measurement, as well as consistency in application.

Department personnel state that when the end-of-the-year payable reports were created, the program was created to look at individual payments to determine if the payments were to be federally reimbursed. However, the report was not created to determine if the federally reimbursable payments were for Advanced Construction. Advanced Construction receivables should be accrued but should be deferred because the billing to the federal government might not occur for one to two years.

Without formal policies in place for monitoring revenue accounts on a monthly basis, Department records are inconsistent and incomplete and could result in lost or misappropriated items and inaccurate financial statements. (Finding Code 07-02)

Recommendation

We recommend reviews of the accounts receivable be performed monthly to ensure that reimbursement projects are billed on a current basis and that receipts are recognized in the appropriate accounting period.

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07-02. Finding – Deferred Revenue (Continued)

Department Response

The Department agrees with this finding.

The report that is used to create the payables has been modified to include a field for federal receivables that are for Advanced Construction. This field will be used to determine the amount of the federal receivable to be deferred on the financial statements.

The current protocol has been in place for several decades. GAAP reporting protocols are currently being studied and enhanced as necessary. The proper recognition of revenues will be one of the key areas to be addressed. Once the new protocols are in place, the Department will work with all affected personnel and any related entities to ensure that we are able to properly recognize revenues.

State of Illinois
Department of Transportation
Schedule of Findings and Responses
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07-03. Finding – Inaccurate Commodities Inventory Records

The Department did not follow their formal commodities inventory policies or procedures in conducting the June 30, 2007 physical inventory. In addition the Department does not maintain a perpetual inventory system.

The Department performed year-end commodities inventory counts at each location to determine the value of commodities inventory to be recorded for the financial statements. These counts were performed around June 30, 2007.

Inventory Counts

During our physical test counts, we noted discrepancies between audit test counts and Department inventory counts resulting in an understatement of the year end inventory balance of \$19,164 which, when extrapolated over the entire inventory population, resulted in an estimated understatement of \$1,055,270. The Department did not post an adjustment for the understatement of \$1,055,270 due to materiality as this item was considered immaterial. The Department was not able to reconcile between audit test counts and Department physical inventory counts for these differences. It was noted through inquiry, the Department did not count any commodities items with an estimated extended cost below \$500. The Department viewed these items as immaterial. In addition, the Department did not record counts correctly for the FY 2007 physical inventory process. We noted one instance where the Department inaccurately recorded an inventory count which caused the perpetual inventory system to be overstated by \$956,337. An adjusting journal entry was recorded to correct the differences.

Inventory Pricing

During our price testing, we noted numerous items in inventory contained pricing errors. It was determined that certain commodities were given equal pricing across the state although actual commodity costs varied by location. In some instances it was also noted that inventoried commodities costs did not agree to the actual invoice for which the commodities were purchased. We noted discrepancies between final inventory prices and invoice prices resulting in an overstatement of the year end inventory balance of \$348,967. When extrapolated over the entire inventory population, this discrepancy resulted in an estimated overstatement of \$1,397,086. The Department passed on recording an adjustment for this estimated overstatement.

The Illinois Procurement Code (30 ILCS 500/50-55) requires that State agencies inventory or stock no more than a twelve month supply of equipment, supplies, commodities, articles and other items except as otherwise authorized by State agency regulations. Every State agency is to periodically review its inventory to ensure compliance with this Section. Additionally, good internal control requires formal written policies so that inventory can be monitored and accounted for consistently throughout the Department.

State of Illinois
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07-03. Finding – Inaccurate Commodities Inventory Records (Continued)

The Statewide Accounting Management System (SAMS) 02.50.20 (Page 6 of 12) requires detailed subsidiary records be maintained for inventories and periodically reconciled to control accounts; in addition, it requires issues, transfers, retirements and losses be reported and accounted for timely. Good business practices require that internal controls be in place and operating to maintain effective accounting control over assets and to ensure they are properly reported. Timely recording of commodity transactions is essential to maintaining an accurate perpetual inventory record and to ensure accurate financial reporting.

Department personnel acknowledged that discrepancies were noted between the audit test counts and department physical inventory counts. The Department did view items at an estimated composite cost of less than \$500 as immaterial, and did make the conscious decision not to count those commodities. The one gross error that was encountered was addressed via an adjusting journal entry. Due to the high volume of purchases for various commodity items, an extensive overhaul would be required in order to provide multiple unit price information for common items. Therefore, certain commodities were given equal pricing.

Without consistent application of inventory policies and without reconciling inventory on hand, inventory records are inconsistent and incomplete and could result in lost or misappropriated items and inaccurate financial statements. Furthermore, without monitoring to determine that formal inventory policies and procedure are followed, the Department cannot determine if it is in compliance with the Illinois Procurement Code requirements. (Finding Code 07-03, 06-04, 05-12, 04-04, 03-05, 02-09, 00-04, 99-05, 98-04, 96-07, 94-06)

Recommendation

We recommend the Department continue training for formal inventory policies and procedures for all Districts/Sites and maintain commodities quantity and costing records throughout the year. The Department should furthermore perform periodic physical inventory counts of commodities inventory and reconcile those counts to its commodities records, e.g. MMI. Also, we strongly recommend that Management implement review at year-end to compare costs assigned per inventory listings to the most recent invoice amounts to ensure accuracy of the unit costs. This practice should help to ensure that inventories are accurately valued for financial statement purposes.

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07-03. Finding – Inaccurate Commodities Inventory Records (Continued)

Department Response

The Department agrees with this finding.

We acknowledge that discrepancies were noted between the audit test counts and department's physical inventory counts.

Where auditor test accounts were provided, the districts and facilities did review the counts and adjust MMI data accordingly. The one gross error that was encountered was addressed via an adjusting journal entry.

The Department has reiterated, through email, memos, and training, the process for completing the annual inventory. In addition, the Department has added additional information to the Property Control and Inventory Procedures Manual regarding commodities inventory. The Department will continue to train our employees and improve our inventory process and procedures. The Department has also enlisted the assistance of a consulting firm that is reviewing our current policies and procedures in order to make recommendations to improve the accountability of our inventory processes.